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SUBJECT: Austrian Outlook on Central/ Eastern  
European Economies

¶1. SUMMARY: As leading investors and bankers in Central/Eastern/Southeastern Europe (CESEE), Austrians have developed broad expertise on the region. The latest forecast by the Vienna Institute for International Economic Studies (WIIW) paints a negative but differentiated picture. As a group, the ten new EU members will stagnate in 2009 (in November, they were projected to grow by 2.7%) but some will grow even in this crisis year. This cable includes WIIW capsule forecasts for each of the twenty CESEE economies. Countries projected to grow in 2009 are Albania, Czech Republic, Kazakhstan, Poland, Russia and Slovakia. Bosnia/Herzegovina, Bulgaria, Montenegro, Romania, Serbia and Slovenia are expected to stagnate; the economies of Croatia, Estonia, Hungary, Latvia, Lithuania, Macedonia, Turkey and Ukraine will shrink. The CESEE region is expected to grow again from next year (2010: 1.5%, 2011: 3.3%). END SUMMARY.

Mixed Outlook in CESEE

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¶2. The Vienna Institute for International Economic Studies (WIIW) recently published its new economic forecast for the CESEE countries plus Ukraine, Russia, Kazakhstan and China. All are experiencing a marked economic slowdown for well-known reasons -- credit crunch, collapse in industrial/export demand -- but only some are dealing with high current account deficits (particularly in Latvia, Lithuania, southeast Europe), a high government debt level, currency devaluations, and related refinancing problems. As a result, the outlook for individual countries varies considerably. In 2009, the so-called NMS-5 (new member states Czech Republic, Hungary, Poland, Slovakia, Slovenia) on average will grow modestly at about 0.6% (2010: 2.1%, 2011: 3.6%) and the NMS-10 (NMS-5 plus Bulgaria, Estonia, Latvia, Lithuania and Romania) will stagnate in 2009 (2010: 1.5%, 2011: 3.3%). Both groups will still outperform the Eurozone (Commission's January 2009 forecast: -1.9% in 2009 and 0.4% in 2010) and EU-27 (1.8% in 2009 and 0.5% in 2010).

¶3. WIIW identifies three groups of CESEE performers:

FORECAST TO GROW IN 2009:  
Albania, the Czech Republic, Kazakhstan, Poland,

Russia and Slovakia.

FORECAST TO STAGNATE IN 2009:

Bosnia/Herzegovina, Bulgaria, Montenegro, Romania, Serbia and Slovenia.

RECESSION IN 2009:

Croatia, Estonia, Hungary, Latvia, Lithuania, Macedonia, Turkey and Ukraine.

COUNTRY OVERVIEWS

¶4. Following are brief WIIW analyses of CESEE economies.

- - - - - BULGARIA - - - - -

¶5. Bulgaria's economic prospects have quickly deteriorated due to falling export demand, a shortage of external funds and a domestic credit crunch. As a result, Bulgaria will stagnate in 2009 and show only modest growth in 2010. WIIW expects the current account deficit to shrink. Government stimulus measures will draw down fiscal reserves and lead to a higher budget deficit. Much will depend on global economic developments, particularly in the Eurozone economies as Bulgaria's main export market. Absent any improvement in western Europe, the Bulgarian economy could well dip into recession.

Bulgaria	2009	2010	2011
GDP growth (real terms)	0.0	1.0	3.0

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Unemployment rate (%)	8.0	9.0	8.0
Current account (% of GDP)	-13.0	-11.7	-10.2

- - - - - CZECH REPUBLIC - - - - -

¶6. At a projected growth rate of 0.4% in 2009, the Czech economy will approach stagnation despite strong macroeconomic fundamentals and a sound financial system. The reasons are substantially weakening exports; an expected contraction of investment; and modest private consumption growth, given the constraints on expanding household debt. A fiscal stimulus package now under consideration should prevent the country from slipping into recession. Given the low public debt level, the Czech government has room for fiscal maneuver. For 2010, recovery with growth of 2.4% is forecast.

Czech Republic	2009	2010	2011
GDP growth (real terms)	0.4	2.4	3.8
Unemployment rate (%)	6.0	6.0	5.5
Current account (% of GDP)	-1.7	-1.3	-1.8

- - - - - HUNGARY - - - - -

¶7. Hungary's modest recovery was interrupted by the international financial crisis and its economy will be in deep recession in 2009 (-3.0%) since under the IMF stand-by agreement, Hungary cannot use fiscal stimulus measures or relax monetary policy. Private household consumption will be affected by declining real wages; the investment outlook is bleak. For 2010, the significantly weakened exchange rate will spark an export-led recovery.

Hungary	2009	2010	2011
GDP growth (real terms)	-3.0	1.4	3.0
Unemployment rate (%)	9.0	8.8	8.0
Current account (% of GDP)	-4.9	-5.5	-5.1

- - - - - POLAND - - - - -

¶8. WIIW sees the Polish economy growing by 1.5% (2009) and 2.3% (2010), benefiting from a weaker currency. Despite efforts to restrict budget expenditures, the government may not be able to prevent an increase in the deficit. Private consumption is expected to grow moderately in view of relatively low household debt. Poland's export performance will largely depend on the further development of major EU economies, particularly Germany.

Poland	2009	2010	2011
GDP growth (real terms)	1.5	2.3	3.8
Unemployment rate (%)	12.0	11.0	10.0
Current account (% of GDP)	-3.9	-4.4	-4.3

- - - - - ROMANIA - - - - -

¶9. A sharp drop in industrial production, declining investments and modest consumption growth will lead to stagnation of the Romanian economy in 2009 and modest growth (1.0%) in 2010. Romania remains highly exposed to external shocks and a hard landing cannot be ruled out, but financial support from the EU and a stand-by agreement with the IMF should help to prevent recession.

Romania	2009	2010	2011
GDP growth (real terms)	0.0	1.0	3.0
Unemployment rate (%)	8.0	9.0	8.0
Current account (% of GDP)	-8.0	-6.5	-6.3

- - - - - SLOVAKIA - - - - -

¶10. Adoption of the Euro in January 2009 has eased the impact of the global financial crisis. However,

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the high conversion rate has undermined Slovakia's export competitiveness vis-a-vis its NMS neighbors. Despite the drop in export demand, Slovakia should be able to achieve modest growth of 2.0% in both 2009 and 2010, driven by domestic demand and an expansionary fiscal policy.

Slovakia	2009	2010	2011
GDP growth (real terms)	2.0	2.0	3.0
Unemployment rate (%)	11.0	12.0	12.0
Current account (% of GDP)	-6.6	-6.8	-6.8

- - - - - SLOVENIA - - - - -

¶11. The Slovenian economy is projected to slow markedly, with stagnation in 2009 followed by 2.0% growth in 2010, primarily due to shrinking investment (until now a key growth driver). The government's stimulus package, at more than 2% of GDP, will dampen crisis impacts.

Slovenia	2009	2010	2011
GDP growth (real terms)	0.0	2.0	4.0
Unemployment rate (%)	5.5	5.0	4.5
Current account (% of GDP)	-5.8	-4.9	-4.6

- - - - - RUSSIA - - - - -

¶12. Despite strong fundamentals, the Russian economy has been hit severely by the global crisis with a near-collapse in the fourth quarter of 2008. The Russian government's various rescue measures and

stimulus packages will not prevent a marked slowdown of the economy from previous strong growth rates. Export revenues will be considerably lower, shrinking trade and current account surpluses. A sharp slowdown in economic growth is inevitable. WIIW's projected recovery for 2010 is based on a modest rise in energy prices.

Russia	2009	2010	2011
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GDP growth (real terms)	1.1	3.7	4.6
Unemployment rate (%)	6.7	6.6	6.3
Current account (% of GDP)	1.0	-0.9	-1.8

----- UKRAINE -----

¶13. After several boom years, the Ukrainian economy fell into recession in October 2008 and is in the midst of an economic meltdown from the global credit crunch, the sharp drop in steel prices/demand, and Ukraine's renewed political crisis. Even the forecast contraction of -5% in 2009 has downside risks. WIIW questions whether the Ukrainian government can meet IMF conditions for further assistance.

Ukraine	2009	2010	2011
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GDP growth (real terms)	-5.0	1.5	4.5
Unemployment rate (%)	7.5	7.5	7.2
Current account (% of GDP)	-2.2	-0.4	-0.3

#### ¶14. Statistical Annex

Below are WIIW forecasts for other CESEE countries:

Estonia	2009	2010	2011
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GDP growth (real terms)	-7.0	-3.5	0.5
Unemployment rate (%)	10.5	13.0	15.0
Current account (% of GDP)	-5.8	-5.5	-6.3

Latvia	2009	2010	2011
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GDP growth (real terms)	-8.0	-4.0	0.0
Unemployment rate (%)	12.0	15.0	16.0
Current account (% of GDP)	-7.0	-5.7	-7.9

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Lithuania	2009	2010	2011
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GDP growth (real terms)	-5.0	-3.5	1.0
Unemployment rate (%)	8.5	13.0	15.0
Current account (% of GDP)	-7.3	-6.3	-7.9

Croatia	2009	2010	2011
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GDP growth (real terms)	-2.0	1.0	4.0
Unemployment rate (%)	10.5	11.0	10.0
Current account (% of GDP)	-7.0	-8.0	-8.0

Macedonia	2009	2010	2011
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GDP growth (real terms)	-1.0	0.0	2.0
Unemployment rate (%)	34.0	33.0	33.0
Current account (% of GDP)	-7.0	-8.0	-8.0

Albania	2009	2010	2011
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GDP growth (real terms)	3.0	4.0	6.0
Unemployment rate (%)	13.0	12.0	11.0
Current account (% of GDP)	-9.9	-11.4	-12.3

Bosnia and Herzegovina	2009	2010	2011
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GDP growth (real terms)	-1.0	-1.0	0.0
Unemployment rate (%)	27.0	27.0	26.0
Current account (% of GDP)	-11.0	-9.0	-8.0
Montenegro	2009	2010	2011
- - - - -			
GDP growth (real terms)	-2.0	0.0	2.0
Unemployment rate (%)	19.0	20.0	20.0
Current account (% of GDP)	-10.0	-10.0	-10.0
Serbia	2009	2010	2011
- - - - -			
GDP growth (real terms)	-2.0	0.0	2.0
Unemployment rate (%)	18.0	20.0	20.0
Current account (% of GDP)	-10.0	-10.0	-12.0
Turkey	2009	2010	2011
- - - - -			
GDP growth (real terms)	-2.5	1.0	3.0
Unemployment rate (%)	13.0	13.0	12.0
Current account (% of GDP)	-3.6	-3.3	-3.1
Kazakhstan	2009	2010	2011
- - - - -			
GDP growth (real terms)	1.0	3.0	4.5
Unemployment rate (%)	7.5	7.0	6.5
Current account (% of GDP)	-6.8	-4.4	-3.9

YAP